

BEFORE
THE PUBLIC SERVICE COMMISSION OF
SOUTH CAROLINA
DOCKET NO. 93-401-C - ORDER NO. 93-870 ✓

SEPTEMBER 20, 1993

IN RE:	Application of Pond Branch Telephone Company for an Increase in its Authorized Rate of Return.)))	ORDER ESTABLISHING RATE OF RETURN
--------	--	-------	---

On June 28, 1993, Pond Branch Telephone Company (Pond Branch or the Company) filed a Petition with the Public Service Commission of South Carolina (the Commission) requesting that the Commission establish an authorized rate of return in the range of 13.25%. The Company did not seek any change in its rates and charges. The Petition was filed pursuant to S.C. Code Ann. §58-9-10, et seq., (1976), and S.C. Reg. 103-830, et seq., (1976).

By letter dated July 7, 1993, the Commission's Executive Director instructed the Company to publish, one time, a prepared Notice of Filing in newspapers of general circulation in the affected areas. The purpose of the Notice of Filing was to inform interested parties of the nature of the Petition and the manner and time in which to file the appropriate pleadings for participation in the proceeding. Thereafter, the Company provided the Commission with proof of publication of the Notice of Filing. A Petition to Intervene was filed on behalf of Steven Hamm, Consumer Advocate for the State of South Carolina (the Consumer Advocate).

On September 1, 1993, at 10:30 a.m., a public hearing was held in the Commission's Hearing Room. The Honorable Henry G. Yonce, Chairman, presided. M. John Bowen, Jr., Esquire, represented the Company; Elliott F. Elam, Esquire, represented the Consumer Advocate; and Florence P. Belser, Staff Counsel, represented the Commission Staff.

The Company presented the testimony of Max R. Whitehurst, a Certified Public Accountant, to explain his accounting exhibits illustrating the Company's actual rate of return on rate base, to explain his adjustments to the Company's books, and to offer his opinion that the Commission should set an authorized rate of return on rate base for the Company. The Commission Staff presented the testimony of Sharon G. Scott, Utilities Accountant of the Commission's Administration Division, to summarize the Staff's findings. The Consumer Advocate did not present any witnesses.

At the beginning of the hearing, the Company through its attorney Mr. Bowen amended its request of an authorized rate of return in the range of 13.00%, instead of the 13.25% as stated in the Petition. Mr. Bowen also stated that the Company planned to file with the Commission a plan to expand its local calling area by March 31, 1994.

Witness Whitehurst testified that the Company is requesting the Commission set an authorized rate of return on rate base in the range of 13.00%. He testified that 13.00% rate of return on rate base would allow a reasonable rate of return on investment for the Company and would allow some variation in operating results from

year to year. Whitehurst emphasized that the Company's current local rates were set by the Commission in April 1982 and that the Company is earning a return of 13.00% based on those rates. Mr. Whitehurst testified that the rates charged by the Company are similar to the rates charged by other small, independent telephone companies in South Carolina and that the requested 13.00% rate of return is comparable to the rates of return approved by the Commission for similar telephone companies. Mr. Whitehurst also testified that for a company the size of Pond Branch a small fluctuation in revenue can make a big change in earnings.

Mr. Whitehurst explained that the requested return on rate base changed after filing the Petition because the Company had neglected to annualize the depreciation of plant placed in service after the test year but before filing for the increased rate of return. Mr. Whitehurst testified that this proposed adjustment was known and measurable at the time of the Staff audit, but it was inadvertently omitted. It was not proposed to Staff at the time of the Staff audit, and it was also omitted from the Company's filing.

Staff Witness Scott testified that her calculations and report were based on the Company's original filing and did not include the adjustment to annualize depreciation of plant placed in service after the test year. However, Ms. Scott acknowledged that the adjustment made by the Company to annualize depreciation of known and measurable plant placed in service after the test year was an adjustment typically accepted by the Staff when proposed.

FINDINGS OF FACT

1. Pond Branch is a South Carolina corporation which owns and operates equipment and facilities for the transmission of intelligence for hire in this State.

2. The Company submitted a Petition seeking an authorized rate of return in the range of 13.25% and later amended its request for an authorized rate of return of 13.00%. The Company is not seeking an adjustment to its rates and charges.

3. Accounting and pro forma adjustments were made to the Company's books in order to illustrate the Company's present earnings to the Commission.

CONCLUSIONS OF LAW

1. The Company is a utility within the meaning of S.C. Code Ann. §58-9-10(6) (1976). Consequently, the Company's intrastate operations are subject to the jurisdiction of this Commission.

2. Because accounting and pro forma adjustments were made in order to illustrate the Company's present earnings, the Commission need not determine the appropriateness of the adjustments.

3. Because the company is a small, independent utility, this Commission will not make a determination as to the appropriate capital structure of the Company. Further, the Commission will not authorize a rate of return on equity.

4. Based on the evidence, a fair and reasonable return on rate base of 13.00% is authorized for the Company.

5. This authorized rate of return will not affect the Company's present rates and charges.

6. A rate of return on rate base of 13.00% will allow the Company to meet its statutory requirements to provide adequate, efficient, and reasonable service, will provide a return to the Company's owners commensurate with returns on investments in other enterprises with corresponding rates, and will assure confidence in the financial integrity of the Company.

IT IS THEREFORE ORDERED THAT:

1. Pond Branch Telephone Company is hereby granted the opportunity to earn an authorized rate of return of 13.00% on its South Carolina combined rate base.

2. Pond Branch Telephone Company shall file with the Commission by March 31, 1994 its plan to expand its local calling area. Nothing in the instant proceeding shall prohibit any party from raising the rate of return issue in the proceeding to expand the Company's local calling area. Furthermore, the 13% rate of return on rate base granted in this proceeding shall not bind any party or the Commission in the expanded calling area proceeding, and the rate of return on rate base may be changed in the expanded calling area proceeding without the need to show a change in circumstances. In other words, the result reached in this proceeding shall not act as a bar by res judicata or collateral estoppel to a review of the rate of return issue in the Company's filing to expand its local calling area.

3. This Order shall remain in full force and effect until further Order of the Commission.

BY ORDER OF THE COMMISSION:


Chairman

ATTEST:


Executive Director

(SEAL)